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FOR USTR AMBASSADOR SCHWAB FROM AMBASSADOR OLSON
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SUBJECT: SCENESETTER FOR THE VISIT OF USTR SCHWAB TO THE UAE

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1. (SBU) On behalf of the US Mission, I warmly welcome your October 21-24 visit to the United Arab Emirates. Public and private sector officials look forward to the opportunity to discuss bilateral trade and investment issues, particularly at this sensitive time for the world economy.

TODAY'S UAE ECONOMY - TOO BIG TO FAIL

2. (SBU) Despite its resource wealth and exponential growth, the UAE has not been immune to the international economic downturn. Stocks have been battered, liquidity is tight and consumer confidence has declined. This month, the UAEG took a number of steps to restore confidence: insuring bank deposits, creating a bank liquidity fund, and reassuring the public that the government was ready and willing to support the economy. Despite these steps, investors remain concerned about local market conditions, particularly Dubai's financial situation and the possibility of a sharp correction in Dubai's large, overheated real estate sector.

ABU DHABI BOOMS

3. (SBU) There is much to suggest that the UAE will escape the worst of the international downturn, and that Abu Dhabi will fare the best of the UAE's seven emirates. With Abu Dhabi emirate controlling all hydrocarbon resources in its territory (93 percent of the UAE's oil), high, or at least relatively high, oil prices and a large budget surplus will keep many optimistic in Abu Dhabi. A new generation of officials has shepherded in an era of development, with the related bevy of high-cost and high-profile investments and megaprojects. While Abu Dhabi has undoubtedly lost billions in recent weeks, the world economic downturn has yet to slow the rapid pace of development, including the October establishment of a media park (including partnerships with CNN and National Geographic), the awarding of a billion dollar nuclear power contract to CH2MHILL, and an expanded partnership with Advanced Micro Devices (valued at almost \$3 billion). The highest profile investments continue to be driven by wholly or partly state-owned entities, with the weaker private sector largely benefiting from the government's largesse.

DUBAI BRACES FOR IMPACT

4. (SBU) Dubai is less insulated from the global financial shock, as much of its economy is dependent on trade, foreign tourism and property investment, all of which are already contracting to some degree. Many of the big real estate projects are believed to be highly leveraged and have attracted a lot of short-term speculators.

There will certainly be needed rationalization in the overheated real estate market, with unsustainable price growth rates (47% in the first 6 months of 2008 for new property) dropping significantly and speculators leaving the market. Many believe a number of the weaker developers (particularly those without solid ties to banks or government development schemes) and their projects are likely to fail. Nonetheless, as in Abu Dhabi, most of the highest profile projects are backed by government-affiliated companies and are likely to go forward, if perhaps in scaled-back form. Dubai continues to benefit from the region's most transparent and business-friendly regulatory environment, its highly developed free zones, and its region-leading port and airport. It also continues to profit from its historical trade relations with Iran -- although those particular ties are attracting increasingly negative international attention. While it is unlikely the Dubai experiment will fail, the impact of the tight international credit situation and the unfolding of several significant financial scandals in the emirate are injecting a sobering reality into the Emirate's grand plans.

TRADE AND INVESTMENT STILL KINGS

15. (SBU) Most here remain optimistic about the UAE's economic future, as well as the strength of the US economy. Public and private sector officials will want to discuss how to promote bilateral trade and investment. While few may admit it, negative press from the failed DP World ports deal continues to impact public views on the dependability of the United States as an economic partner, particularly with regard to high profile issues like a Free Trade Agreement. But however cautious and low-profile UAEG officials may wish to be as a result, they still view the United States as a fundamental component of their growth strategy. Officials will be interested in how the TIFA Plus framework can be

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reinvigorated to advance US-UAE economic ties.

BILATERAL TIES REMAIN STRONG

16. (SBU) Our relations with the UAE remain broad, deep and enduring. The UAE is a key partner, intent on cooperating with us to create a stable economic, political, and security environment in a troubled region. Concerned about regional proliferation, the UAE has been responsive on export control issues. Abu Dhabi Crown Prince Mohammed bin Zayed recently visited Iraq to reinforce UAE support for the Iraqi government; in July, the UAE forgave Iraqi debt and named an ambassador to Baghdad. The UAE will co-host the BMENA Forum for the Future on October 18-19. Your visit will be taken as another sign of our shared commitment to deepening all aspects of the relationship.

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